LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7658 | **NOTE PREPARED:** Jan 8, 2005
BILL NUMBER: HB 1544 | **BILL AMENDED:**

SUBJECT: Property tax replacement income tax.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill allows a county council to impose a Property Tax Replacement Income Tax (PRIT) for the county. It provides that the tax may not exceed 1% of adjusted gross income. The bill allows the county council to use revenues from the PRIT for property tax replacement credits homestead credits.

Effective Date: Upon passage; July 1, 2005.

Explanation of State Expenditures: The state pays a 20% Property Tax Replacement Credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% Homestead Credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

The use of PRIT to replace local property taxes would reduce state expenses for these credits. If all counties adopt the maximum PRIT rate allowed and the entire PRIT revenue is used to replace property taxes then state expenditures for PTRC and homestead credit could be reduced by as much as $82 M in FY 2006 (partial year), $247 M in FY 2007, and $254 M in FY 2008. This is the maximum estimated state savings under this proposal.

The minimum estimated state savings is $0. This would be possible if either (1) no counties adopted PRIT or (2) those counties that do adopt PRIT allocate the entire revenue amount to providing local homestead credits, leaving none for property tax replacement..

The range of state expenditure savings is estimated at $0 - $82 M in FY 2006 (partial year), $0 - $247 M in FY 2007, and $0 - $254 M in FY 2008 and depends entirely on local action.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill establishes a new local option income tax that would be used to replace property taxes for local civil units. The distribution would not include solid waste management districts without the approval of each county fiscal body in each county served by the district. School corporations would not be eligible for a distribution. The income tax could be first collected in July, 2005 with property tax relief taking effect with property taxes paid in 2006.

The tax would be assessed on individual adjusted gross income for county residents and non-residents working in the county who do not pay a similar tax in their county of residence. The tax may be imposed, increased, and reduced in increments of 0.1%. The maximum tax rate for county residents would be 1%. The non-resident rate would be limited to 0.3% and can never exceed the resident tax rate. The PRIT would be adopted and adjusted independently of all other local income taxes (CAGIT, COIT, and CEDIT). Taxpayers who receive the federal income tax credit for the elderly or totally disabled would receive a credit against their PRIT liability. Revenues collected from PRIT may be used to replace property taxes or to increase the homestead credit. PRIT used for property tax replacement would be treated as property taxes under this bill

If all counties adopted PRIT at the full 1% resident rate, distributions would equal approximately $1,052 M for CY 2006, $1,082 M for CY 2007, and $1,113 M for CY 2008. The non-resident tax rate of up to 0.3% would provide additional revenue.

Projected Impacts: The exact impact of PRIT will depend on:

A) Whether it is used to:
  1) replace property taxes collected for the civil units within the county,
  2) increase the homestead credit for county resident homeowners, or
  3) do both simultaneously; and

B) The PRIT rate that is adopted by the county.

In any event, the overall revenue for local civil units would remain unchanged.

If all or part of the PRIT proceeds are used for property tax replacement, then the net total tax amount (net property tax plus PRIT) paid in the county would be higher than the net property tax under current law. The increase occurs because the state would not pay PTRC or homestead credits on the PRIT used for property tax replacement. There would also be shifting of overall net tax burdens from taxpayers who pay property tax to individual taxpayers who pay income tax.

If all of the PRIT proceeds are used for homestead credits, then the net total tax amount (net property tax plus PRIT) paid in the county would be the same as the net property tax under current law. This is because homestead credit does not affect gross levy and, thus, the state continues to pay PTRC or homestead credits at the same rate as under current law. There would, however, be shifting of overall net tax burdens from homeowners to individual taxpayers who pay income tax.

State Agencies Affected: Department of Revenue, Department of Local Government Finance, State Budget Agency, Auditor of the State, Treasurer of the State.

Local Agencies Affected: Adopting counties.

Information Sources: State income data, Department of Revenue; Commuter patterns data, U.S. Census Bureau; Local Government Database.

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